

Memo

RE: Examination Procedures Related to Executive Expenses

DATE: September 22, 2006

On July 15, 2005 we issued OFI Bulletin BL-02-2005 in response to questions asked about examination procedures related to executive expenses. We included the following statement in item # 2 of the Bulletin, based on an interpretation we received from the federal regulators:

2. The policy or procedures are specific with respect to the requirement for maintenance of original invoices and documentation to support the expenses, as well as documentation supporting the business nature of the expenses, before the institution pays the expense. Please be aware that charging personal expenses to a corporate credit card, even though prompt reimbursement is made, is an apparent violation of Regulation O because the terms of this extension of credit are not substantially the same for comparable transactions. Therefore, NO personal expenses should be charged to a financial institution's corporate credit card.

After receiving numerous calls from institutions seeking clarification concerning the Regulation O implications arising from executives charging personal expenses to corporate credit cards, we discovered that there was some confusion regarding what constitutes preferential treatment. Following discussions between our office, the FDIC, and the Federal Reserve, the Board of Governors of the Federal Reserve System issued new guidance in this regard. You may access this guidance from the Federal Reserve website at the following address:

www.federalreserve.gov/BoardDocs/LegalInt/FederalReserveAct/2006/20060522.pdf

In summary, the new guidance indicates that the simple fact that personal expenses are charged to a corporate card will not, in and of itself, constitute preferential terms. If the insider issued the corporate credit card meets the normal credit underwriting standards AND the card does not have preferential terms such as a lower interest rate or a longer repayment period, a Regulation O violation will not apply. In addition, OFI Bulletin BL-03-2005 dated August 5, 2005, that included frequently asked questions based on the earlier premise, is rescinded.